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THE DIRECTOR OF CENTRAL INTELLIGENCE

Washington, D. C. 20505

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25 OCT 1982

MEMORANDUM FOR: Honorable Lionel H. Olmer
The Under Secretary for International Trade
United States Department of Commerce

SUBJECT: Commerce Department Study of Soviet/West European
Pipeline Project

1. Thank you for sending me your analysis of the economics of the Soviet/West European pipeline. It is an excellent piece of work, treats the main issues systematically and contains considerable new information. I concur that more detailed information on specific contractual terms of equipment-supply and gas agreements must be obtained in order to complete and refine the analysis. Overall, the assumptions made are close to CIA's in most cases, but the range of uncertainty on some issues is still rather large. Specifically,

- o the estimate that European firms have charged 20 percent higher prices for goods and services for the pipeline is still a rough guess. CIA analysts believe that while the assumption may be accurate for West German goods, other countries may not have raised prices to the same extent,
- o the extent and level of interest rate subsidies is not well understood. The Commerce Department assumptions probably represent a high end estimate of the value of these subsidies, and

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